



International Agricultural Trade Report

July 27, 1998

China: Rumbblings in the Wheat Market; Corn Exports on Hold

Summary

Recent trade reports point to a smaller and quality-impacted 1998 wheat harvest, making a rise in Chinese wheat imports an enticing possibility. However, abundant stockpiles and changing government support policies will likely curb large-scale import demand. Additionally, a smaller wheat crop reduces difficulties faced by overburdened grain storage facilities, which in turn relieves some of the pressure to export large volumes of corn.

Lower-Than-Expected Wheat Crop Fuels Import Speculation...

Trade sources familiar with China's wheat situation indicate that the crop may be around 110 million tons, which would represent a 10 percent reduction from last year's record harvest. Quality is also reported to be poor in many areas. These projections have sparked speculation that imports may exceed the 2 million tons currently forecast by USDA. Given that China imported nearly 2 million tons of wheat last year, primarily for blending and speciality flours, expectations of a year-to-year rise in wheat imports are quite reasonable. However, the record crops of 1996 and 1997 resulted in a stock buildup that should temper imports to what is necessary for quality reasons.

...and Dampens Prospects for a Large Corn Export Program

A major impetus for China's corn exports has been the *total* grain oversupply. A reduced wheat harvest will help alleviate that situation. Coupled with low international corn prices, and slack demand in China's traditional Southeast Asian markets, there will likely be little pressure to export corn until after the completion of the harvest in October-November.

Changes in Gov't Support May Affect Size of Export/Import Programs

There is a serious effort underway in China to reduce state-owned enterprises' dependency on central government subsidies, although similar reforms have been attempted before without success. A large wheat import program would lower internal Chinese prices, which would raise government procurement subsidy outlays. Corn exports, at current domestic and international prices, would also require a substantial subsidy. Thus, the extent to which the central government actually reduces state sector support may moderate both the wheat import and corn export quantities.

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